

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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| ELECTRONIC APPLICATION OF KENTUCKY |) | |
| POWER COMPANY FOR (1) A GENERAL |) | |
| ADJUSTMENT OF ITS RATES FOR ELECTRIC |) | CASE NO. |
| SERVICE; (2) AN ORDER APPROVING ITS 2017 |) | 2017-00179 |
| ENVIRONMENTAL COMPLIANCE PLAN; (3) AN |) | |
| ORDER APPROVING ITS TARIFFS AND RIDERS; |) | |
| (4) AN ORDER APPROVING ACCOUNTING |) | |
| PRACTICES TO ESTABLISH REGULATORY |) | |
| ASSETS AND LIABILITIES; AND (5) AN ORDER |) | |
| GRANTING ALL OTHER REQUIRED APPROVALS |) | |
| AND RELIEF |) | |

ORDER

By petition filed on February 7, 2018, Kentucky Industrial Utility Customers, Inc. (“KIUC”) requests a rehearing of the Commission’s final Order issued on January 18, 2018. Among other things, the January 18, 2018 Order approved a \$12,348,630 increase in Kentucky Power Company’s (“Kentucky Power”) base rates. KIUC requests that Kentucky Power’s base rate increase be reduced by \$1.31 million to reflect decreases in the federal corporate income tax expense associated with the Unit Power Agreement for Rockport (Indiana) Plant Generating Units No. 1 and No. 2 (“Rockport UPA”). KIUC’s request excludes amortization of excess accumulated deferred income tax (“ADIT”), which will be addressed in Case No. 2018-00035.¹ As a basis for the

¹ Case No. 2018-00035, *Kentucky Industrial Utility Customers, Inc., v. Kentucky Power Company* (Ky. PSC Jan. 25, 2018) (order separating Case No. 2017-00477, an omnibus complaint against four utilities, into three separate cases).

request, KIUC notes that the Rockport UPA formula rate, which includes recovery of federal corporate income tax expense, reflects the actual tax expense at 21 percent as of January 1, 2018 rather than the previous federal corporate income tax rate of 35 percent. KIUC asserts that the Commission adjusted Kentucky Power's base rates to reflect the lower federal corporate income tax rate of 21 percent and argues that the same ratemaking principle for reducing the base rates should be applied to the Rockport UPA tax expense, which was not adjusted to reflect the impact of the lower federal corporate income tax rate.

Kentucky Power opposed granting rehearing on the Rockport UPA tax expense. Kentucky Power argues that a counterparty to the Rockport UPA bears the actual tax expense, and thus rehearing on this matter is outside the scope of investigating the reasonableness of Kentucky Power's own tax expenses. Kentucky Power further argues that if an adjustment were made to the Rockport UPA tax expense, it would be arbitrary, unjust, and unreasonable if the Commission then did not evaluate all measurable impacts on Kentucky Power's cost of service that result from the reduced tax rate. Kentucky Power cites the PJM Interconnection, LLC ("PJM") transmission owner revenue credit, which is embedded in base rates, as an expense that was not adjusted by the Commission but will be impacted by the reduction in the tax rate. According to Kentucky Power, an adjustment to the PJM transmission owner revenue credit would result in a \$4,670,302 net increase in base rates.

The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("Attorney General"), proposed that an investigation of the

tax impact on the Rockport UPA, and therefore upon Kentucky Power's rates, should be addressed in Case No. 2018-00035 for the purpose of administrative economy.

No parties other than Kentucky Power and the Attorney General filed a response to KIUC's petition for rehearing.

Having reviewed the petition and being otherwise sufficiently advised, the Commission finds that rehearing should be granted to allow the record to be more fully developed on the issue of the impact of reduced federal corporate income tax expense on the Rockport UPA and the PJM transmission owner revenue credit. Clarification of KIUC's and Kentucky Power's claims will indicate whether it is fair, just, and reasonable to adjust the Rockport UPA tax expense and the PJM transmission owner revenue credit to address the impact of the reduced federal corporate income tax rate. The Commission further finds that a procedural schedule should be established by separate Order.

IT IS THEREFORE ORDERED that:

1. KIUC's petition for rehearing is granted.
2. Additional evidence shall be taken on the impacts of the reduction in the federal corporate tax rate on the Rockport UPA tax expense and the PJM transmission owner revenue credit.
3. A procedural schedule shall be established by separate Order.

By the Commission

ENTERED
FEB 27 2018
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

Case No. 2017-00179

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